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The Significance of the Government Sector of Our Economy

by
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It would be possible to define the government sector of our economy in such a manner that logically every conceivable transaction is a part thereof. Indeed, we sometimes may be led to believe that all sectors have now been fully merged into the government sector; and the magnitude of the expenditures and receipts of our national authority lends credence to such belief.

However, in order to subject this area to some degree of acceptable analysis, it is necessary to limit somewhat its scope. The Office of Business Economics of the Bureau of Foreign and Domestic Commerce has defined the government sector as including the federal, state, and local general governments and the social insurance funds which they administer. These social insurance funds include those resulting from the Social Security and Railroad Retirement programs, state health insurance funds, military life insurance funds, and the government employees' retirement funds. It is more convenient to regard the activity of the government sector as being confined to the area of receipts and expenditures of the governments—federal, state, and local.

With a national income only slightly less than \$300 billion and government expenditures of \$66.1 billion during the fiscal year ended June 30, 1952, the significance of the government sector in terms of absolute dollars is obvious and perhaps even appalling. Federal expenditures as estimated by the President in his 1953 budget message are approximately one-fourth of our national income and the over-all government expenditures (including state and local) are about one-third of our national income. Even allowing for actual federal spending of about three or four billions less than esti-

mated, the proportion of our national income going into government expenditures at the present time is worthy of much concern.

The enormous increases in annual government expenditures have been made possible by our increasing output, productivity of workers, and a fiscal policy of the administration which usually results in a budget deficit.

At the beginning of this century, annual federal expenditures were about half a billion dollars and at that time the national income was less than \$20 billion. Federal expenditures increased from three per cent of national income to somewhat more than thirteen per cent during the World War I years. Thereafter, this percentage decreased until the recession in the thirties when, in order to increase purchasing power and put idle resources into use, government expenditures reached slightly more than ten per cent of national income at a time when our annual production was rather low. The burdens of World War II were responsible for federal government spending of an estimated forty-one per cent of national income during the years 1941 to 1945. This percentage dropped after the war and has since risen to about twenty-five per cent.

Should we achieve an anticipated net national product of \$400 billion in 1960 and should expenditures as a percentage of national income increase between now and 1960 as they have in the past five years, then by 1960 the annual federal expenditures will approximate those of our entire national income during the first years of World War II! Senator Douglas of Illinois has stressed the fact that the proportion which government expenditures form of national income has, on the average, almost doubled every decade during the last forty years.

It has been necessary to increase our expenditures

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because of past wars, present conflicts, threatened future wars, and the increase in functions performed by governments on all levels. Now let us turn to a summary examination of the receipts and expenditures of our national government, which, in terms of dollars, is most significant.

Total federal government receipts for the fiscal year ending June 30, were \$62.1 billion. What do these figures include? Where does the money come from? Direct taxes on individuals of \$33.7 billion accounts for more than half of the total. These direct taxes on individuals include income taxes, estate taxes, and gift taxes. Estate taxes and gift taxes account for only about three-fourths of a billion dollars. Direct taxes on corporations yield another \$21.5 billion and excise taxes account for \$7.9 billion. Employment taxes, customs and miscellaneous receipts bring the total budget receipts to \$62.1 billion. Employment taxes include those under the Federal Insurance Contributions Act, Federal Unemployment Tax Act, Railroad Retirement Tax Act, and Railroad Unemployment Insurance Act.

Federal receipts in the boom year of 1929 were less than \$4 billion and about one-third of all government receipts. In 1950 federal receipts increased to more than \$37 billion and more than fifty per cent of total government receipts. Budget receipts are the highest in history at the present time and are expected to increase by about thirteen per cent during the present fiscal year.

The major portion of federal expenditures will be devoted to military functions. Money spent for federal military services during the present fiscal year will almost equal expenditures of all governmental units for all other purposes. Expenditures for the major national security programs are presently more than expenditures of all governmental units for all other purposes. The major national security programs include military services, international security and foreign relations, civil defense, development and control of atomic energy, promotion of the merchant marine, defense production, economic stabilization, and other defense production activities and government programs. International security and foreign relations expenditures embrace the conduct of foreign affairs, military and economic assistance, mutual security, and other aid to foreign countries.

Veterans' benefits and services for the past two years have cost more than \$5 billion a year. A decline is anticipated; but should new benefits be approved, the present estimate may have to be revised upward. Social security, welfare, and health expenditures account for \$2.67 billion. Housing and community development has cost about \$44 million during the 1951-52 fiscal year, education and general research another \$238 million, agriculture and agricultural resources \$1.4 billion, natural resources \$3 billion, transportation and communication \$2.1 billion; finance, commerce, and industry \$750 million, labor \$250 million, general government and interest on the national debt about \$6 billion.

The President has estimated that government expenditures on the federal level will exceed receipts in the 1952-53 fiscal year by \$8.2 billion. This figure appears at this time to be somewhat high. Nevertheless, deficit spending had already raised our national debt to \$263

billion at the end of July of this year. It is estimated that this figure will reach almost \$275 billion by the end of the 1952-53 fiscal year. Our national debt of \$1.2 billion in 1916 increased to \$12.2 billion in 1918, and to \$24 billion in 1920. The debt decreased to \$16 billion in 1930. Then began the long period of increase to \$20 billion in 1932 and \$49 billion in 1941. During the last war the national debt reached \$258.7 billion in 1945. There were declines until 1948, but by 1950 the debt again had resumed its climb.

The above analysis is given to emphasize the significance of the government sector of the economy and to indicate some of the components of federal receipts and federal expenditures. The enormous build-up of our military establishment has necessitated the imposition of huge burdens on the people of this nation. The President's Council of Economic Advisers states that it is not within the province of the economist to object that this military expansion creates problems which result in the imposition of burdens upon our economy. However, the Council also notes that when the build-up threatens to destroy our industrial strength it is then within the province of the economist to object. The present means of coping with the emergency situation are far from adequate.

The anticipated budget deficit of more than \$20 billion for the period of 1951 to 1953 strengthens the forces of inflation. Inflation, if only because of the unfair burden it imposes upon most of us, is such a sinister force that it should be fought even if at the expense of higher taxes. The present tax burden is far from an equitable one. However, higher taxes impose a far more equitable burden on our citizen taxpayers than does inflation. Higher taxes are, therefore, less costly than inflation because inflation imposes an unduly harsh burden on the lower income groups.

But at this time, under present federal fiscal policies, we have both high taxes and inflation. It is evident that even were higher taxes to be desirable at this time they are politically inexpedient. However, substantial increases in the tax levies are not needed in order to balance the budget. The end to deficit spending at an early date is mandatory.

During a period of full employment with relatively few idle resources, deficit spending can end only in inflation. Therefore, the first recommendation is an end to deficit spending. In order to balance the budget only two policies can be followed. Either spending must be decreased or receipts must be increased. The second recommendation is that stern measures be introduced to reduce and eliminate such wastes in spending as those in over-specification, procurement, cost-plus contracts, needless research, and unjustified subsidies which reduce supplies while holding up prices. All subsidies do not have this effect. Senator Douglas in his *Economy in the National Government*¹ has listed in detail the manner in which \$7.6 billion can be cut from federal expenditures. While this figure may be somewhat high, it is certain that far more can be done in this area than has thus far been accomplished.

The third suggestion, as already indicated, is that receipts be increased through a re-examination of our tax structure and that an honest attempt be made to

1. Paul H. Douglas, *Economy in the National Government*, Chicago, University of Chicago Press, 1952.

end the realized opportunities for some to gain unfair tax advantages at the expense of others. This includes revisions in capital gains treatment and the favored position of many natural resources interests and other interests through favorable depletion allowances. It appears that some depletion allowances are granted only so that a firm's competitive position may be strengthened. A few billion dollars of additional revenue can be obtained here if depletion allowances can be in part replaced with tax levies such as those to which other businesses are subjected.

Economists, in general, are agreed that it is essential that there be maintained a high level of employment, relative stability of demand, increased co-operation between the government and business areas, and personal areas as well, so that through an expansion of output and continued increases in productivity our resources may be most efficiently used. The result will be a maintenance and enhancement of our economic strength.

It is impossible at the present time to ascertain the mobilization goal of our administration. The strength and direction of international forces continually change. But in order to formulate sound economic policies it is essential to know the approximate extent of the build-

up to which these policies must be applied. Therefore, the *fourth* suggestion is that our rearmament program be clearly defined in terms of raw material needs, production goals, and the speed and size of our build-up.

Finally, a better attempt to supply the public with the facts surrounding the present mobilization program should be made. We need not fear an informed public. On the contrary, when the public is aware of the gravity of our economic picture and is given an indication of the scope of the problems that must be solved, it is eager to respond. When we are only told to make an all-out effort and to fight inflation the situation is still a nebulous one. What weapons are we to use? The taxpayers of this nation have a tranquil fortitude in approaching any problem. They also maintain an apparent tranquil and passive respect for government officials even though the sins of an authorized deficit spending program are cast upon these same taxpayers in the form of the sinister evils resulting from inflation, lack of planning, waste, and special favors. There are formidable problems inherent in any large-scale rearmament program. We can no longer bear without some alarm the burdens of an unhealthy national fiscal policy.

Resource Consciousness and Socialistic Trends

An Editorial

Through discovery and invention man has transformed his environment into little robots, the invisible workers that serve him and give him time to relax and enjoy his leisure. These robots are in the form of machines and tools created from earthly substances which at one time were what some economists refer to as "neutral stuff," i.e., earthly substances for which man at one time had absolutely no use.¹

Through application of both mental and physical energy man has created resources from this "neutral stuff." The description of great resource creations from the time of the invention of the steam engine down to the age of atomic energy is a story that rivals the best fairy tale.

Resources are not, they become. When man discovers means and methods to use the earthly substances, he creates natural resources. No doubt, there are many substances about us on this earth which are useless to us at present. However, as a result of inventions, posterity will be enjoying many resources which we at present cannot visualize.

A glance at recorded history reveals that men have lived under social controls which varied in degree of intensity. With the advent of great discoveries and inventions the white race began to experience some freedom from central or group control, and the individual sought and gained many opportunities to better himself and his way of living. The business man enjoyed less and less interference by government in his affairs. We speak of this today as free enterprise. The consequence of this tremendous growth in free enterprise was the lifting up of man to a much higher plane of living. There was born a philosophy which implied that

competition, not restrained by government or social responsibility, was the force that would bring about harmony between the group and the individual.

As certain resources became depleted there developed two basic views concerning business: (1) the maximum profits view regardless of the depletion of resources, and (2) the view of society as a whole with regard to the future concerning basic assets such as soil, water power and water use, iron ore, oil, forest products, etc. We might refer to this second view as the interest of government or the group.

The rise of group interest in this country was hastened when our land frontiers to the west were closed. When men began to realize that free land was no more to be had, there developed a feeling of resource consciousness. No longer could one move about freely from place to place leaving the depleted land, the eroded land, the land from which all fertility has been robbed, and move to virgin rich soil across the hills. Theodore Roosevelt's appeal for conservation policy rings out louder and louder.

We not only witnessed a great depression in the 1930's but we also became heirs to greater government planning in economic affairs. We are all familiar with the growing powers and controls of government over business since that time.

Thus the closing of our frontiers, two great wars, one great depression, and what at present seems to be jelling into an everlasting cold war, have contributed immensely to the feeling of preserving a nation's security. Growing resource consciousness is just an inevitable consequence of the above.

There are other forces responsible for our great interest in resources. Our growing industrial complexity has added to this force. Let us visualize for a moment what this country of ours would look like in the near future if all access to iron ore were blocked. It is upon

1. Erich W. Zimmermann, *World Resources and Industries*, revised edition, Harper and Brothers, Publishers, New York, 1951.

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iron ore and coal that this nation of ours depends for its great industrial strength and its high standard of living.

Our present economic life may be divided into three phases: (1) private enterprise, a purely individualistic sort of system at one extreme; (2) the group or public interest at the other extreme; and (3) a third economy somewhere in the boundless between.

The group or government interest must predominate in the maintenance of an army, to administer justice, to look after public health and education, etc. However, in the field of mining, in lumbering, the power industry, and others, the extent to which the state should interfere is debatable. Even to a lesser extent, agriculture lies within this third economy; for even robbing the land of its fertility in one area or the cutting of

flood-preventing timber in another is of great public interest.

The extent of government or group control acquired in this third economy is of vital importance to all free men. The swelling of this third economy can only be in the direction of private and free enterprise. Regardless of differing views, it is a fact that we have with us this middle economy, and we must guard against too much infringement of personal initiative lest we be swallowed by socialism.

In the midst of wars and rumors of wars this nation of ours must, if it is to survive, reappraise its natural, human, and cultural resources. However, the citizen must guard against an overextension of central power, i.e., government control. In times of war no one will deny full central control. Let us make provision for less central control in time of peace.